

Gem and mineral clubs and a federation of such clubs may qualify for exemption from Federal income tax under section 501(c)(3) or 501(c)(7) of the Internal Revenue Code of 1954 depending upon their forms of organization and methods of operation.

Depending upon its form of organization and method of operation, a gem and mineral club may qualify for exemption from Federal income tax as an educational organization under section 501(c)(3) of the Internal Revenue Code of 1954 or as a social club under section 501(c)(7) of the Code. A federation of such clubs may qualify for exemption from Federal income tax under section 501(c)(3) of the Code.

Situation 1.-Club qualifying under section 501(c)(3) of the Code.

The club was formed to advance the earth sciences by stimulating interest and encouraging study therein. It is a nonprofit organization whose membership consists primarily of amateurs and hobbyists interested in geological, mineralogical, and lapidary activities. In carrying out its purposes, the club (1) holds monthly lectures at which qualified experts discuss topics pertaining to gems and minerals and give instruction on lapidary techniques; (2) sponsors field trips to collect and study various kinds of rocks and minerals; (3) issues a bulletin containing educational material pertaining to rocks and minerals; (4) maintains a library of reference materials on geological, mineralogical, and lapidary subjects; (5) assists the local museum in its display of gems and minerals through specimens provided from members' collections; and (6) annually conducts a show for the general public at which members and nonmembers demonstrate lapidary techniques and display collections of gems and minerals. Exhibitors at the show compete for awards based upon the quality, workmanship, and variety of their displays. A 'swapping' room is maintained to provide an opportunity for the purchase, sale, and exchange of specimens and materials so that the members and others may complete mineral collections, obtain new specimens, and dispose of lapidary works. A nominal fee is charged for show admission and nonmember displays.

The general public is invited to attend all club functions and participate in its programs on substantially the same basis as members.

Receipts of the society are from membership dues and from the gem and mineral show. Disbursements are for office and club expenses. No salaries are paid; all services are performed by volunteers.

Section 501(c)(3) of the Code exempts from Federal income tax organizations organized and operated exclusively for

educational purposes whose net earnings do not inure to the benefit of any private individual.

Section 1.501(c)(3)-1(d)(3) of the Income Tax Regulations defines the term 'educational' as relating to (a) the instruction or training of the individual for the purpose of improving or developing his capabilities or (b) the instruction of the public on subjects useful to the individual and beneficial to the community. An example in this section states that an organization whose activities consist of presenting public discussion groups, forums, panels, lectures, or other similar programs, may be an educational organization.

The lectures, discussions, field trips, and shows conducted by the club, to which the general public is invited, are recognized educational methods. These activities are educational within the meaning of the regulations even though they serve recreational interests.

This organization is organized and, in carrying out its purpose in the manner described above, is operated exclusively for charitable and educational purposes. Accordingly, the organization qualifies for exemption under section 501(c)(3) of the Code.

Situation 2.-Club qualifying under section 501(c)(7) of the Code.

The club was formed by mineralogy and lapidary enthusiasts to disseminate knowledge of mineralogical and lapidary subjects, to promote their application so that greater pleasure may be derived from these activities, and to promote good fellowship among its members. In furtherance of these purposes, the club (1) holds monthly social meetings during which the members discuss gem and mineral topics and sell, purchase, or exchange rock and mineral specimens; (2) issues a bulletin containing news of members' social activities and their rock and mineral collections; and (3) annually conducts a show for the general public at which its members display their lapidary techniques and mineral specimens. A nominal admission fee, designed to cover expenses of the show, is charged for admittance to the show. The club's funds are otherwise derived solely from membership dues, fees, and assessments. No part of the net earnings of the organization inures to the benefit of any individual.

Section 501(c)(7) of the Code exempts from Federal income tax a club that is organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes whose net earnings do not inure to the benefit of any private individual.

The club provides a meeting place for its members where they may associate with each other and become more proficient in their hobbies. It is operated primarily to accommodate its members in their recreational pursuits. The gem and mineral show serves to

stimulate the members' hobby interests and is, thus, consistent with the society's recreational purposes.

The facts in this situation are distinguishable from those in Situation 1 in that the instant organization is organized and operated primarily for the benefit, pleasure, or recreation of its members. Its activities are only incidentally educational.

Accordingly, it qualifies for exemption from Federal income tax under section 501(c)(7) of the Code.

Situation 3.-Federation of local clubs qualifying under section 501(c)(3) of the Code.

A federation of local gem and mineral clubs was formed as a nonprofit organization to disseminate knowledge and encourage the study of earth sciences. Its membership consists of local gem and mineral clubs within a geographical area. The federation (1) encourages and aids in the formation of local clubs; (2) provides informational programs for the use of its members clubs; (3) provides educational materials such as slides, displays, and discussion topics for use by the clubs; (4) distributes educational materials to the general public; (5) sponsors a monthly journal which contains articles relating to gems and minerals and suggestions for the care, collection, and handling of these materials; (6) sponsors and conducts field trips for the observation of geological phenomena and the collection of rocks and minerals; and (7) conducts an annual gem and mineral show which is open to the general public. The show is presented with the aid of a different local club each year and is conducted in the same manner as described in Situation 1.

Receipts of the federation are from membership dues, the gem and mineral show, commissions from the sale of the monthly journal, and the sale to member clubs of pins, emblems, and decals. Disbursements are for the costs of educational materials and general operating expenses.

Section 501(c)(3) of the Code exempts from Federal income tax organizations organized and operated exclusively for educational purposes whose net earnings do not inure to the benefit of any private individual.

Section 1.501(c)(3)-1(d)(3)(i)(b) of the regulations defines the term 'educational' as relating to the instruction of the public on subjects useful to the individual and beneficial to the community.

The federation is engaged in educational activities providing its member clubs and the public with programs and material designed to encourage the study of mineralogical, geological, and lapidary subjects. It does not matter whether the local clubs themselves are exempt from Federal income taxes.

The federation is organized and is operated exclusively for educational purposes. Accordingly, the organization qualifies for exemption under section 501(c)(3) of the Code.

An organization which considers itself within the scope of this Revenue Ruling must, in order to establish exemption, file an application on an appropriate form with the District Director of Internal Revenue for the internal revenue district in which is located the principal office of the organization. An organization claiming exemption under section 501(c)(3) of the Code must file an application on Form 1023, Exemption Application. An organization claiming exemption under section 501(c)(7) of the Code must file an application on Form 1025. See section 1.501(a)-1 of the regulations.